

**REPORT OF THE AUDIT OF THE
MONROE COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

April 30, 2004



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE 502.573.0050
FACSIMILE 502.573.0067**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MONROE COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES

April 30, 2004

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2003 Taxes for Monroe County Sheriff as of April 30, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,300,274 for the districts for 2003 taxes, retaining commissions of \$89,530 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,211,825 to the districts for 2003 Taxes. Taxes of \$321 are due to the districts from the Sheriff and refunds of \$1,998 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Have A Written Agreement To Protect Deposits
- The Sheriff Should Obtain Refunds For Overpayments Caused By The County Clerk's Office's Improperly Prepared Franchise Tax Bills

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities and bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2003 TAXES	3
NOTES TO FINANCIAL STATEMENT	5
COMMENTS AND RECOMMENDATIONS	9
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Wilbur Graves, Monroe County Judge/Executive

Honorable Jerry Gee, Monroe County Sheriff

Members of the Monroe County Fiscal Court

Independent Auditor's Report

We have audited the Monroe County Sheriff's Settlement - 2003 Taxes as of April 30, 2004. This tax settlement is the responsibility of the Monroe County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Monroe County Sheriff's taxes charged, credited, and paid as of April 30, 2004, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated March 7, 2005, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Wilbur Graves, Monroe County Judge/Executive
Honorable Jerry Gee, Monroe County Sheriff
Members of the Monroe County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Have A Written Agreement To Protect Deposits
- The Sheriff Should Obtain Refunds For Overpayments Caused By The County Clerk's Office's Improperly Prepared Franchise Tax Bills

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 7, 2005

MONROE COUNTY
JERRY GEE, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2003 TAXES

April 30, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 200,494	\$ 418,235	\$ 858,029	\$ 286,728
Tangible Personal Property	22,216	42,525	85,094	75,495
Intangible Personal Property				21,089
Fire Protection	1,730			
Increases Through Exonerations	78	161	327	150
Franchise Corporation	47,572	95,895	192,025	
Oil and Gas Property Taxes	52	109	222	75
Limestone, Sand, and Mineral Reserves	27	119	116	39
Penalties	2,157	4,475	9,173	3,175
Adjusted to Sheriff's Receipt	(50)	(39)	(124)	(47)
Gross Chargeable to Sheriff	<u>\$ 274,276</u>	<u>\$ 561,480</u>	<u>\$ 1,144,862</u>	<u>\$ 386,704</u>
<u>Credits</u>				
Exonerations	\$ 574	\$ 1,197	\$ 2,456	\$ 820
Discounts	3,122	6,389	13,070	5,514
Delinquents:				
Real Estate	3,317	6,914	14,184	4,738
Tangible Personal Property	226	450	900	458
Uncollected Franchise	372	771	1,576	
Total Credits	<u>\$ 7,611</u>	<u>\$ 15,721</u>	<u>\$ 32,186</u>	<u>\$ 11,530</u>
Taxes Collected	\$ 266,665	\$ 545,759	\$ 1,112,676	\$ 375,174
Less: Commissions *	11,621	22,733	38,944	16,232
Taxes Due	\$ 255,044	\$ 523,026	\$ 1,073,732	\$ 358,942
Taxes Paid	255,226	524,571	1,073,184	358,844
Refunds (Current and Prior Year)	68	142	288	98
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (250)</u>	<u>\$ (1,687)</u>	<u>\$ 260</u>	<u>\$</u>

The accompanying notes are an integral part of this financial statement.

MONROE COUNTY
 JERRY GEE, COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 2003 TAXES
 April 30, 2004
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	992,923
4% on	\$	184,675
3.5% on	\$	1,112,676

** Special Taxing Districts:

Library District	\$	(1,748)
Health District		14
Extension District		16
Soil Conservation District		5
Ambulance District		26

Due Districts or (Refund Due Sheriff)	\$	<u>(1,687)</u>
---------------------------------------	----	----------------

MONROE COUNTY
NOTES TO FINANCIAL STATEMENT

April 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution pledged or provided sufficient collateral of \$1,403,575 as of December 5, 2003. However, the depository institution's board of directors or loan committee did not approve the pledge or provision of collateral, and the depository institution did not have a written agreement with the Sheriff securing the Sheriff's interest in the collateral.

MONROE COUNTY
NOTES TO FINANCIAL STATEMENT
April 30, 2004
(Continued)

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 4, 2003 through April 30, 2004.

Note 4. Interest Income

The Monroe County Sheriff earned \$628 as interest income on 2003 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of March 7, 2005, the Sheriff owed \$55 in interest to the school district and was due a refund of \$29 for overpayment of interest from his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Monroe County Sheriff collected \$14,502 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of March 7, 2005, the Sheriff was due a refund of \$543 for overpayment of 10% add-on fees from his fee account.

Note 6. Advertising Costs And Fees

The Monroe County Sheriff collected \$603 of advertising costs and \$1,590 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office. As of March 7, 2005, the Sheriff owed \$603 in advertising costs to the county and \$1,590 in advertising fees to his fee account.

COMMENTS AND RECOMMENDATIONS

MONROE COUNTY
JERRY GEE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

April 30, 2004

STATE LAWS AND REGULATIONS:

1) The Sheriff Should Have A Written Agreement To Protect Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of December 5, 2003, the Sheriff had bank deposits of \$1,403,575; FDIC insurance of \$100,000; and collateral pledged or provided of \$1,350,000. Even though the Sheriff obtained sufficient collateral of \$1,350,000, the pledge or provision of collateral was not approved by the board of directors of the depository institution or its loan committee, and there was no written agreement between the Sheriff and the depository institution, signed by both parties, securing the Sheriff's interest in the collateral. We recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Sheriff's Response:

None

2) The Sheriff Should Obtain Refunds For Overpayments Caused By The County Clerk's Office's Improperly Prepared Franchise Tax Bills

During 2003 tax year, franchise tax bills were prepared in error by the Monroe County Clerk's Office. Several franchise tax bills for tax year 2003 were prepared using the incorrect real estate and tangible tax rates for the library district. The correct real estate tax rate for the library district for 2003 taxes was 3.5, however most franchise tax bills were prepared using 3.6 as the tax rate. The correct tangible tax rate for the library district for 2003 taxes was 4.09, however most franchise tax bills were prepared using 4.61 as the tax rate. In addition, the wrong tangible tax rate for the library district was used to prepare a 2002 franchise tax bill during the 2003 tax year. The correct tangible tax rate for the library district for 2002 taxes was 4.09, however the franchise tax bill was prepared using 4.90 as the tax rate. These errors resulted in overcharging several taxpayers for franchise taxes. After obtaining a refund of \$1,748 from the library district as noted on the financial statement, the Sheriff should refund additional library tax collected to the appropriate taxpayers. We recommend the Sheriff's office review franchise tax rates with the County Clerk's office to ensure the bills are properly calculated in the future.

Sheriff's Response:

None

MONROE COUNTY
JERRY GEE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
April 30, 2004
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS:

None.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

The following comments were in the prior year audit report, but have been corrected:

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral of \$32,164 To Protect Deposits
- Lacks Adequate Segregation Of Duties Over Receipts

REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Wilbur Graves, Monroe County Judge/Executive
The Honorable Jerry Gee, Monroe County Sheriff
Members of the Monroe County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Monroe County Sheriff's Settlement - 2003 Taxes as of April 30, 2004, and have issued our report thereon dated March 7, 2005. The Sheriff's financial statement was prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Monroe County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Monroe County Sheriff's Settlement - 2003 Taxes as of April 30, 2004 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Have A Written Agreement To Protect Deposits
- The Sheriff Should Obtain Refunds For Overpayments Caused By The County Clerk's Office's Improperly Prepared Franchise Tax Bills

This report is intended solely for the information and use of Monroe County Sheriff, management, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 7, 2005

